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Apparent cash shortages

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matures. These advances constitute an option on the crop. In addition, the agents usually make all the disbursements for the purchase of tobacco and expenses in connection therewith. For these disbursements, the company must rely on the integrity of its agents to a great extent as it is often practically impossible to obtain vouchers, receipts, or other evidence of payment from the recipients of the funds disbursed.

Unfamiliarity with the language is another problem. The countries are small in area, the work is varied, and the locations

far apart. One speaking English, French, and German gets along as far as traveling and living are concerned, but in auditing books kept in a language not familiar to the auditor, the services of an interpreter are required, thus increasing the difficulty of the work. While the interpreter may be capable as far as conversation is concerned, he is not usually familiar with technical accounting terminology in the different languages.

The writer found the Europeans very pleasant to deal with and had their complete coöperation at all times.

Apparent Cash Shortages

THE danger of jumping at conclusions is one to be guarded against in cases where accountants suspect a cash irregularity. The accountant must be certain that there is a shortage and who is chargeable before going to the client with open accusations of a particular employe, who may be a trusted person. The client probably will regard with extreme disfavor any accusation not supported by absolute proof. Of course, it is permissible to inform the client that one's suspicions have been aroused, but even this must not be done too quickly and must be done tactfully. The following case of an apparent cash shortage is illustrative.

During the audit of a certain construction company irregularities were brought to light which, at first, led the auditors to believe that a misappropriation of company funds had been effected, but later proved to be merely bona fide disbursements of the company's funds for purposes which they wished to conceal.

The amount of these apparent irregularities was \$1,337.50. Deposits of \$1,337.50 appeared on the bank statement, but were not entered on the company's books. The deposits appearing on the bank statement were offset by debits appearing on that statement aggregating the same amount, for which no canceled

checks were available and for which no entries appeared on the books. These amounts, representing collections from a customer, were deposited properly and offset by checks drawn in the usual manner payable to officials of the customer for whom work was being done. These amounts were paid to the customer's engineer in consideration of his furnishing inflated estimates of work performed. The disbursements were for the company's account and did not represent improper withdrawals in so far as employes were concerned. The collection and disbursement mentioned above were not recorded as it was not desired to have disbursements of this nature shown on the company's books. This appeared to have represented the plan of concealment of the company's accountant.

In order to give proper credit to the customer from whom the amounts were collected, charges were made to the company's contract cost or to expense accounts in amounts aggregating \$1,137.50 and credited to the customer. Entry for the other \$200 was not made, apparently through oversight.

These items were detected by comparing the deposits shown on the bank statement with the cash book, as well as comparing the canceled checks with the charges on the

bank statement. By footing both sides of the cash book and the bank statement, when the same items did not appear on both records, it was found that the same balance was reflected in each.

The necessity for the deposits was brought to light by confirmation obtained for the total payments made to the construction company by the party for whom the work was done. The confirmation also disclosed that items aggregating \$3,807.21, which were not reflected by any discrepancy such as previously explained, had been paid to the construction company. Upon receipt of this confirmation, the accountants went to the office of the issuing company and examined the re-

turned checks, making notes of the indorsements, etc.

One check for \$340 was stated by the president of the construction company to have been cashed by him and the proceeds used in making irregular payments. This transaction, it appeared, caused the treasurer of the construction company to follow the same procedure, and checks aggregating \$3,467.21 were cashed by him and stated to have been similarly used. This latter statement was claimed by the president to be untrue as the total amounts paid to the engineer appeared to be accounted for by the other items. The accountants determined finally, however, that the proceeds were used for corporate purposes.

Unique Method of Arriving at Undivided Profits

By H. BROOKS DAVIES, Dallas Office

SEVERAL years ago, upon being assigned to a new engagement, I called at the office of the client and was introduced to the bookkeeper, a woman about fifty years of age. This woman immediately informed me in great detail of her accounting experience and accomplishments. The reason given by her for this information was that she wanted me to understand that she was no ordinary bookkeeper and further that she had been an auditor for several years. After much conversation, which was distinctly one-sided, I managed to procure the trial balance recently prepared by the woman in question. The trial balance contained the following irregularities:

Accounts receivable had a large credit balance, accounts payable had a considerable debit balance, and there was an item of approximately \$900 which was arrived at by subtracting the liabilities from the assets and called "undivided profits." I might mention at this time that the books under audit were those of a partnership. Upon comparing the trial balance with the general ledger, I discovered that

the accounts receivable control had a debit balance which had been shown in the trial balance as a credit. The accounts payable likewise had been reversed and I could not tie up the trial balance item of approximately \$900 called "Undivided Profits." I called these matters to the attention of the experienced and voluble bookkeeper who replied as follows:

"If I put the accounts receivable balance on the asset side of the trial balance and the accounts payable on the liabilities side, then the difference between the two sides amounts to about \$3,000, which is much too large, as I know that the firm did not make that much money. So I switched these items in preparing my trial balance, resulting in undivided profits of about \$900, which I think is about what they should be."

I was told later that this bookkeeper was considered to be a trifle unbalanced. She probably got that way from trying to arrange the trial balance so that the resulting "Undivided Profits" would approximate her mental conception of what they should be.